Icelandair Group | A Brief Introduction

Magnús Þorlákur Lúðvíksson, Business Development

May 2018

Today's agenda

A brief introduction to Icelandair Group

Our partnership with Reykjavik University

Q&A

Icelandair Group at glance

The Group is divided into two business segments

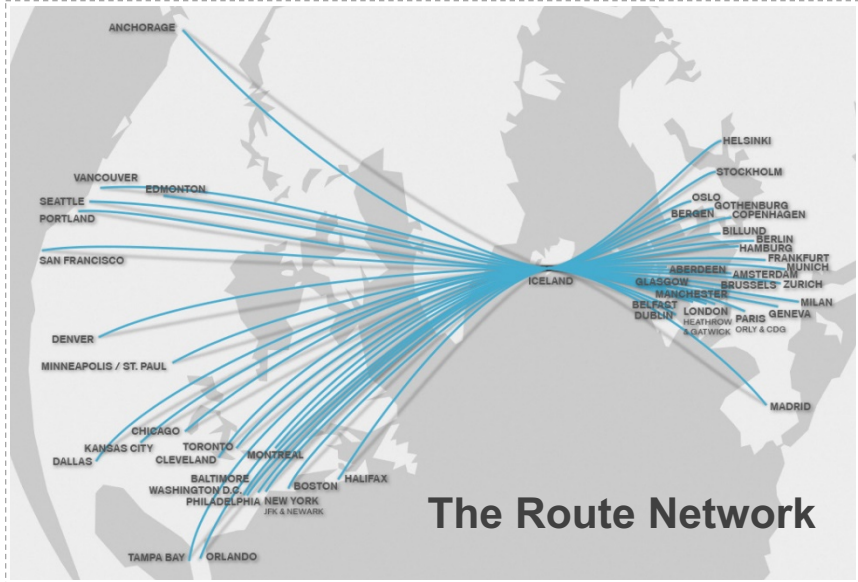
International flight operations

- Icelandair
- Icelandair Cargo

Equity investments

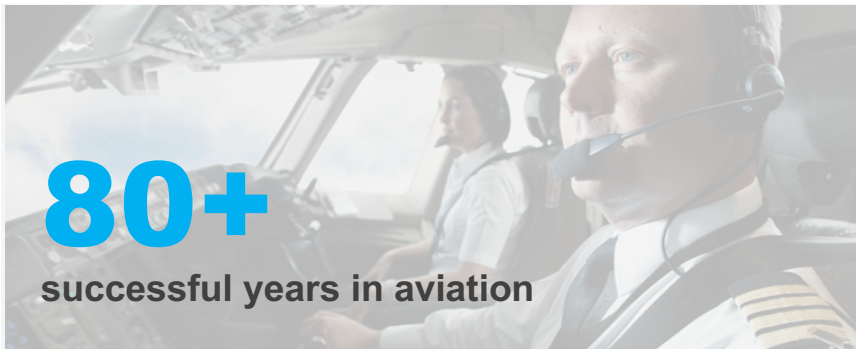
Aviation:
- Air Iceland Connect
- Loftleidir Icelandic
- Vita

Tourism:
- Icelandair Hotels
- Iceland Travel



The Route Network

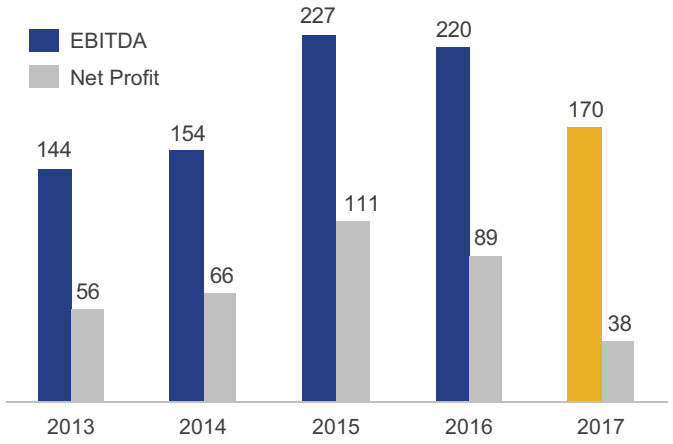
4.4 million passengers forecasted in 2018



Our vision is to unlock Iceland's potential as a year-round destination, to strengthen Iceland's position as a connecting hub and to maintain our focus on flexibility and experience

EBITDA & Net Profit

USD million 2013-2017



44

2,400 shareholders

3,900 employees

ICELANDAIR GROUP

A brief introduction to Icelandair Group

1. Our Business Model

2. A History of Profitable Organic Growth

3. A Strong Financial Position

4. Future prospects

Iceland's unique geographical position on the shortest flight-route between N-America and Europe is the key to Icelandair's extensive **24 hour hub-and-spoke Network**

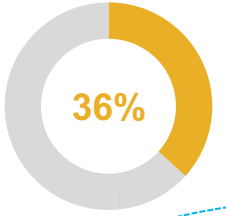
23 Destinations USA
26 Destinations Europe
678 Connection options

Airlines position themselves on a spectrum from luxury Full Service Carriers to ultra Low Cost Carriers – correct positioning depends on market circumstances

ICELANDAIR GROUP

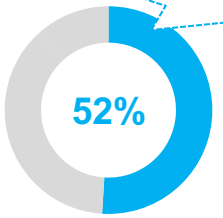
The via market between Europe and North America is Icelandair's largest market and has led the growth

from
the domestic market in Iceland

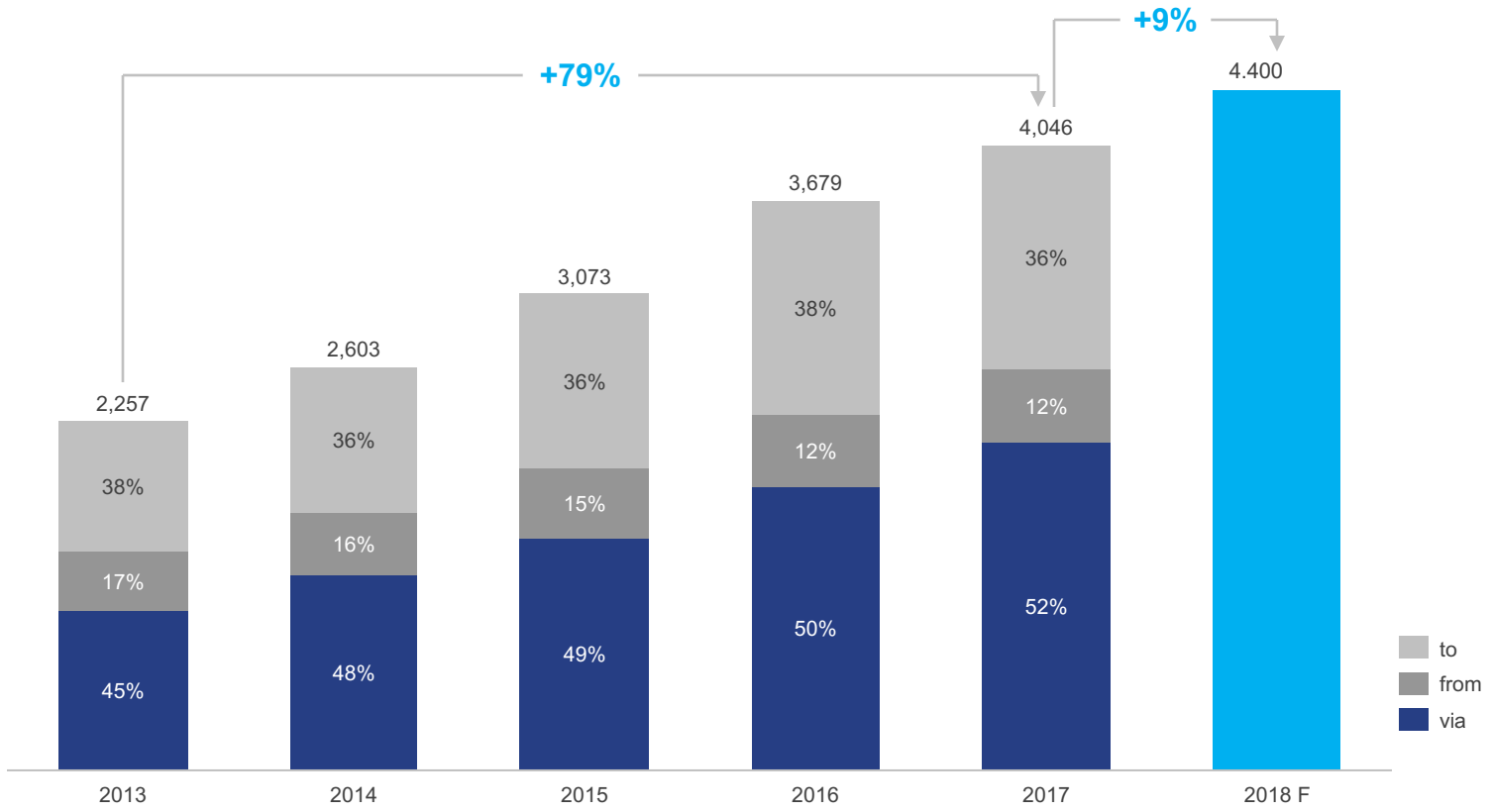


to
the tourist market with Iceland as a destination

30% of via pax make a „stop-over" in Iceland



via
the international market between Europe and N-America

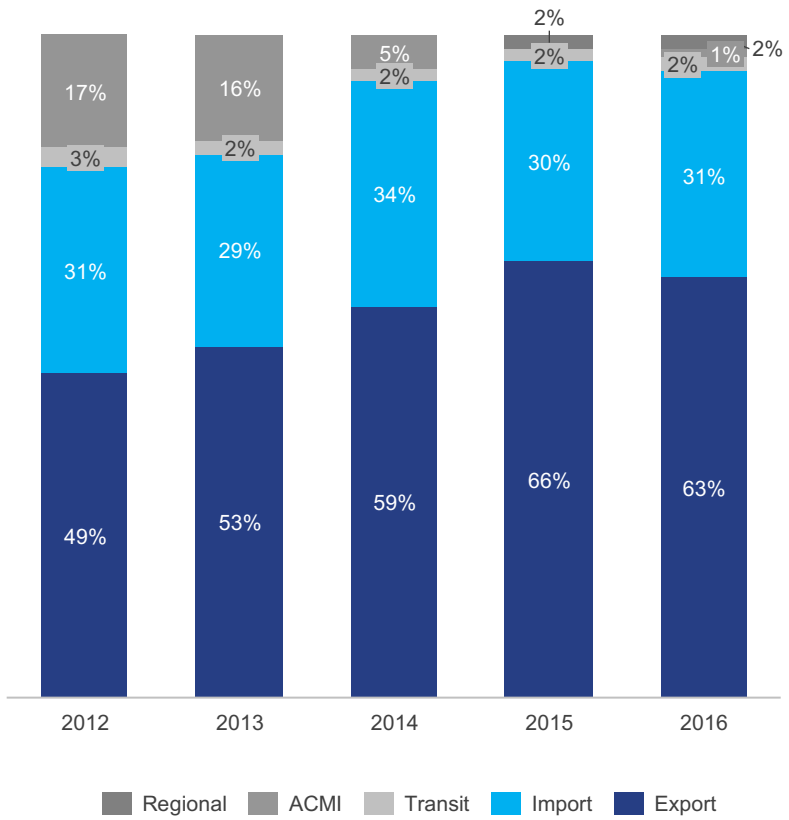


Absolute figures in thousands
Stop-over = On an Icelandair stopover you can stay for up to 7 nights at no additional airfare.

ICELANDAIR GROUP

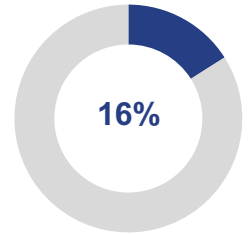
Cargo operations focus on air-freight services in the holds of Icelandair's passenger aircraft combined with scheduled air cargo flights

The vision of the Group's cargo operations is to be the leading freight carrier servicing Iceland and develop new opportunities by leveraging the logistic expertise to grow in a profitable way



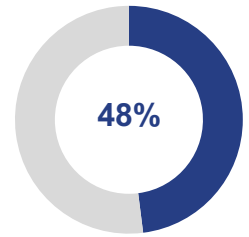
Holds of passenger AC

2 freighter AC



2008

Tonnes carried in passenger holds



2016

Tonnes carried in passenger holds

Icelandair Group offers capacity solutions to international passenger airlines and tour operators under the Loftleidir Icelandic brand

Loftleidir - Icelandic has developed from being a marketing vehicle operating in the international ACMI (Aircraft Crew Maintenance and Insurance) and charter markets, to become a capacity solution provider focusing mainly on AM (Aircraft and Maintenance) projects and consulting service.

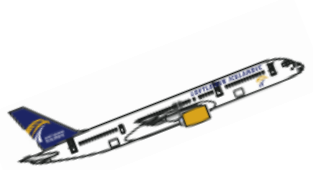
3
B 737-800

1
B 737-700

2
B 767-300

2
B 757-200

+
Leasing of excess capacity in the Route Network in off-season



Air Iceland Connect operates extensive and flexible flight schedule in Iceland

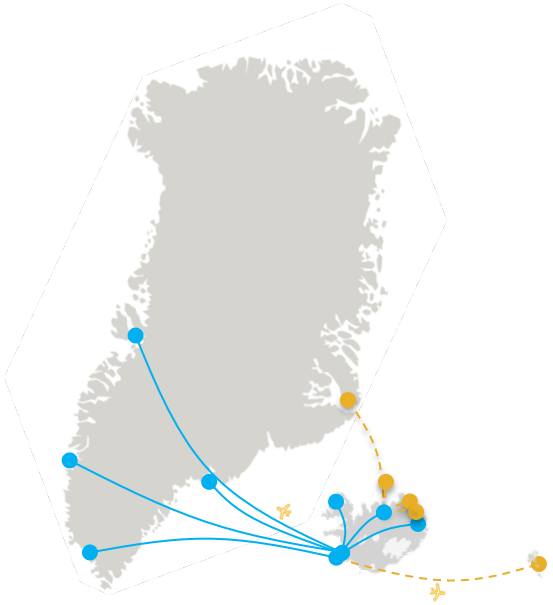
5

240
employees

65.9%
load factor
2017

8,527
flights
annually

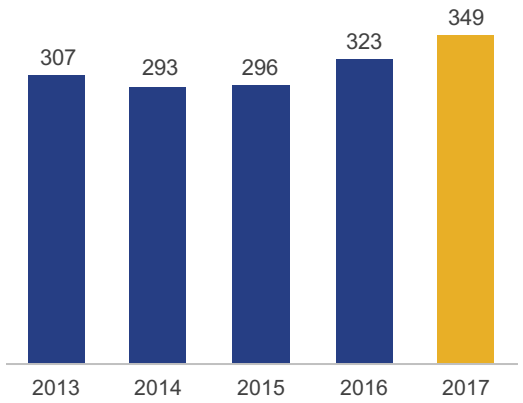
Route Network of Air Iceland Connect



Air Iceland Connect is a regional carrier operating scheduled services to domestic destinations across Iceland and to Greenland and Faroe Islands

Number of passengers

In thousands 2013-2017



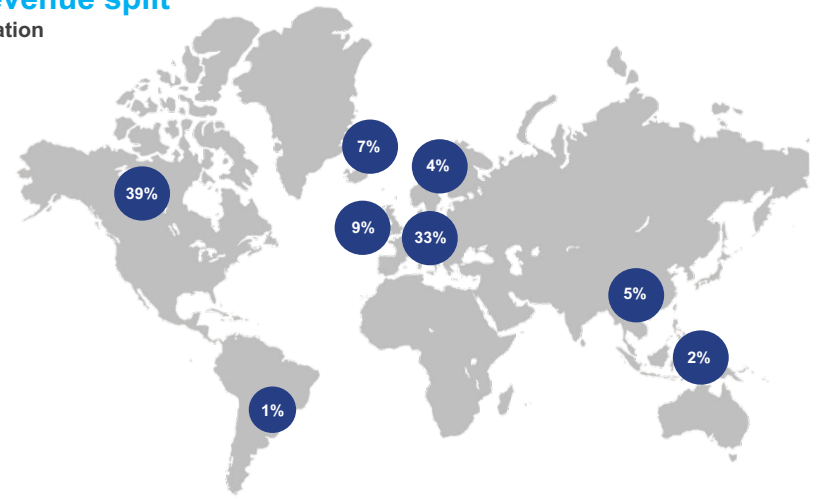
* Flights to Scotland and Ireland are in cooperation with Icelandair.

ICELANDAIR GROUP

Icelandair Group operates Iceland largest travel agency: Iceland Travel, which offers a wide range of high-quality services for travellers visiting Iceland

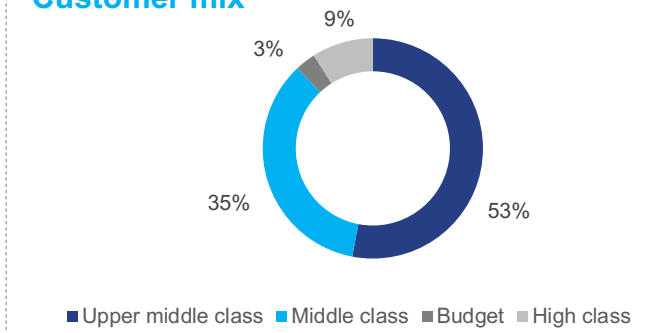
Revenue split

location



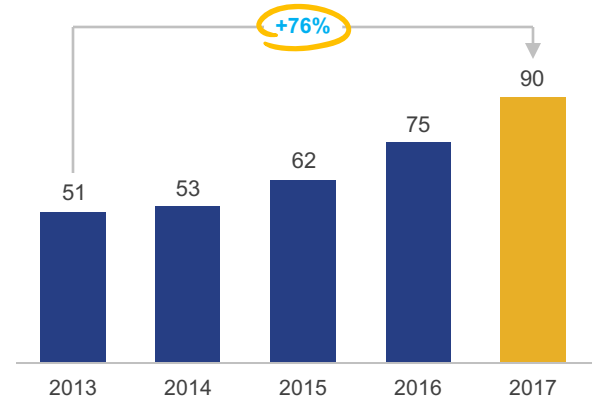
The vision of Iceland Travel is to be the leading tourism service provider in Iceland, offering a multi channel sales approach with focus on enhancing the development and marketing of Iceland as a destination

Customer mix



Number of passengers

In thousands 2013-2017



ICELANDAIR GROUP

There are 24 hotels within Icelandair Group and several hotel projects underway

Cohesive mix of international and local brands

Icelandair Hotels · canopy Reykjavík City Centre · Reykjavík Marina Residence · Iceland Parliament Hotel · hotel edda Old School Hospitality · Hilton Reykjavik Nordica · Reykjavík Consulate Hotel

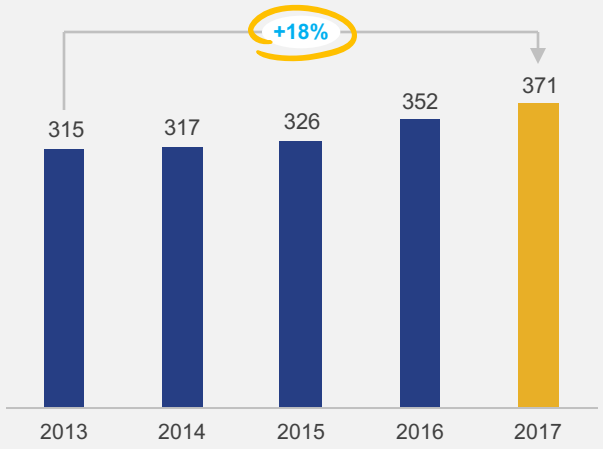
690
employees

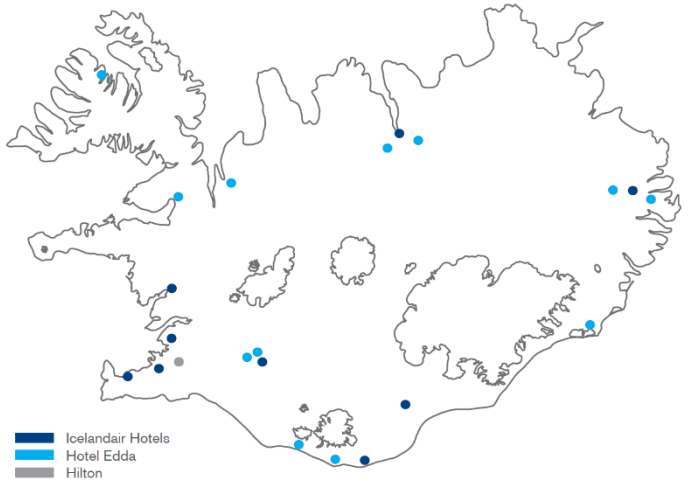
81.2%
occupancy 2017

The vision of the Group's hotel operations is to create an authentic Icelandic experience for visiting tourist

Available hotel room nights

In thousands 2013-2017





ICELANDAIR GROUP

A brief introduction to Icelandair Group

1. Our Business Model

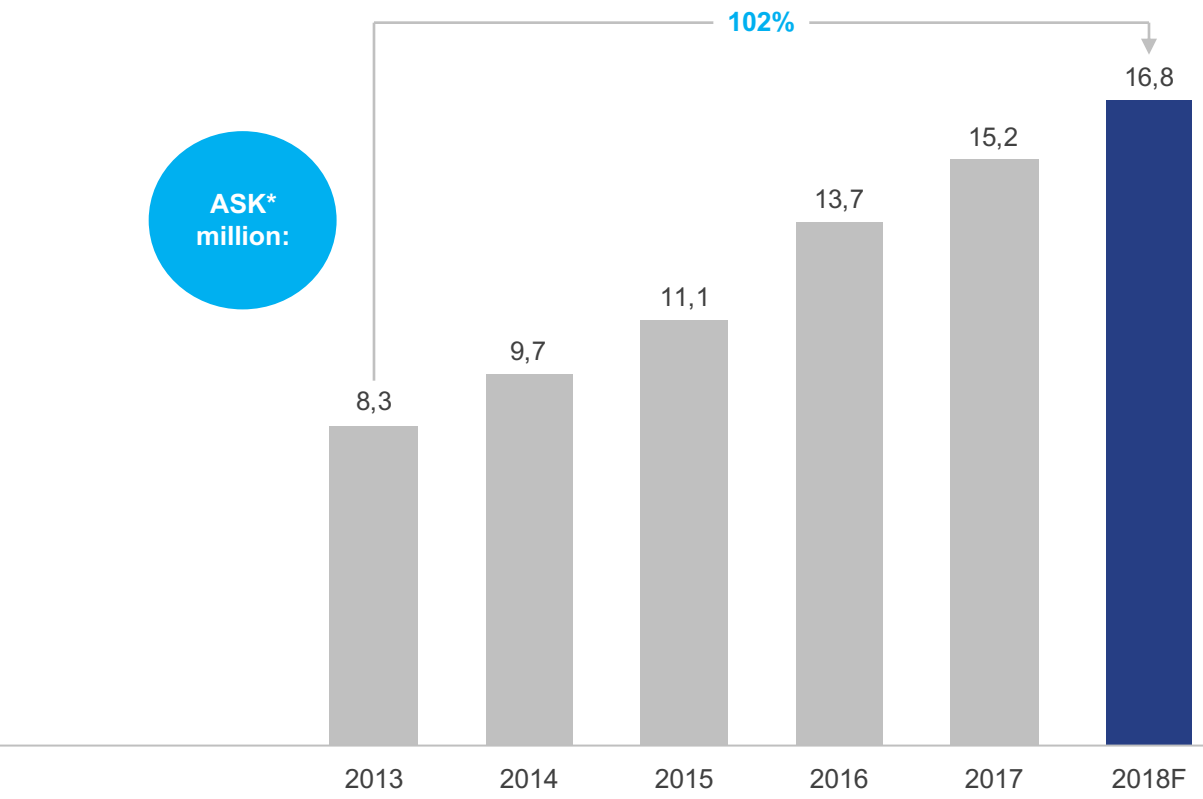
2. A History of Profitable Organic Growth

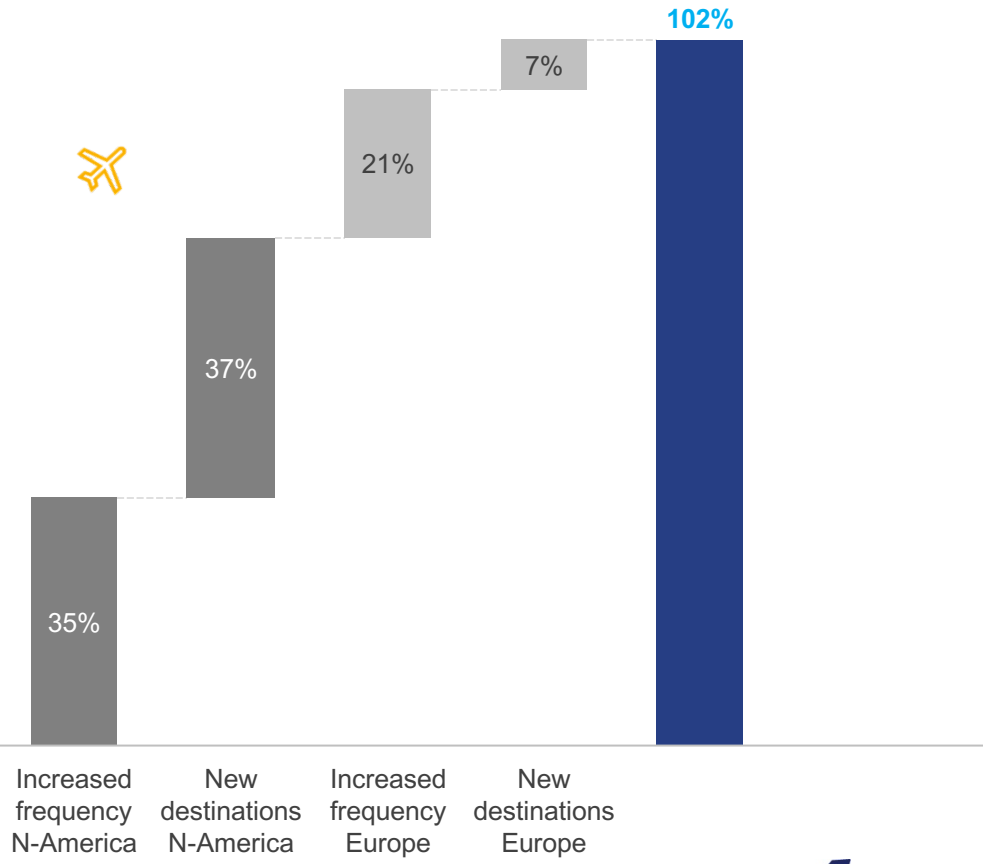
3. A Strong Financial Position

4. Future prospects

A History of Profitable Organic Growth

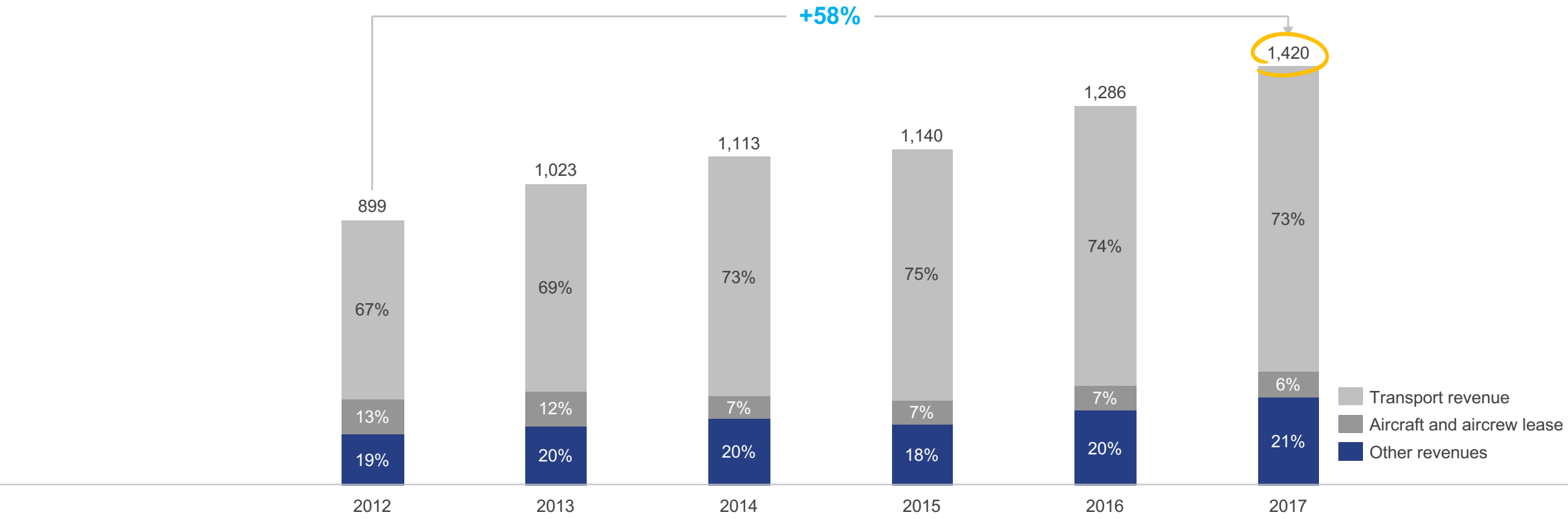
Icelandair has grown significantly in recent years and the Route Network has developed and expanded, both in breadth and depth





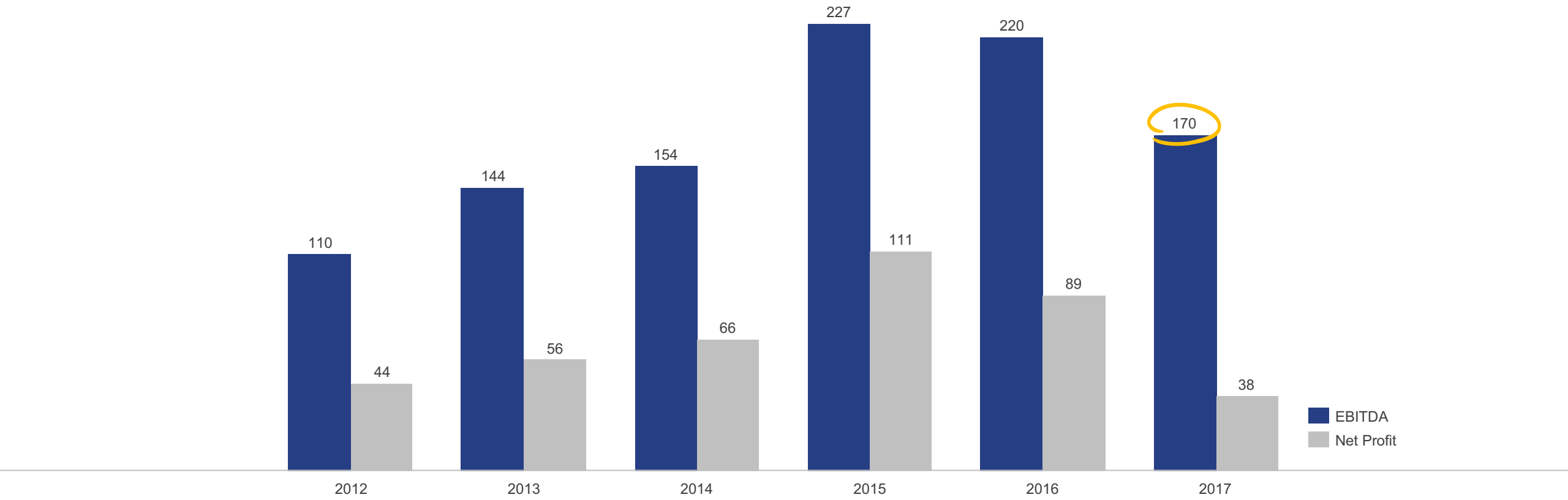
* Capacity = ASK = Available Seat Kilometres

Icelandair Group has seen steady revenue growth in recent years



All figures in USD million

EBITDA in 2017 amounted to USD 170 million



All figures in USD million.

A brief introduction to Icelandair Group

1. Our Business Model

2. A History of Profitable Organic Growth

3. A Strong Financial Position

4. Future prospects

Icelandair Group had a strong financial position at year-end 2017 with a 42% equity ratio

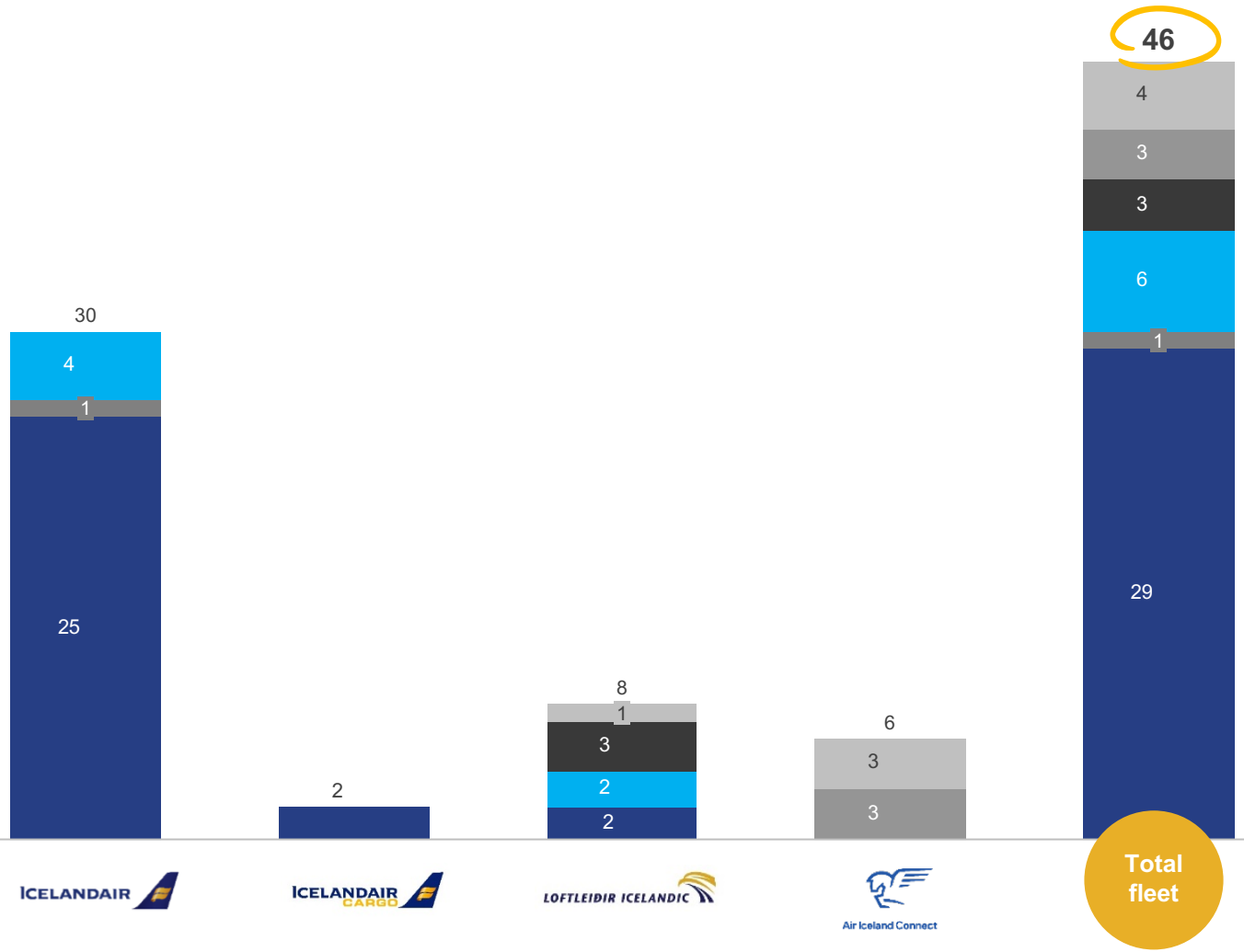
USD million	31.12 2017	31.12 2016	Diff.
Assets			
Operating Assets	652.7	602.6	50.1
Intangible assets and goodwill	180.4	174.7	5.7
Other non-current assets	126.7	97.7	29.0
Total non-current assets	**959.8**	**875.0**	**84.8**
Other current-assets	230.0	167.4	62.6
Short term investments	4.1	23.2	-19.1
Cash and cash equivalents	221.2	226.9	-5.7
Total current assets	**455.3**	**417.5**	**37.8**
Total assets	**1,415.1**	**1,292.5**	**122.6**

Interest bearing debt USD 289.5m

Net debt USD 64.3m

USD million	31.12 2017	31.12 2016	Diff.
Equity and liabilities			
Stockholders equity	**591.5**	**568.2**	**23.3**
Loans and borrowings non-current	280.3	196.7	83.5
Other non-current liabilities	76.9	71.5	5.4
Total non-current liabilites	**357.1**	**268.2**	**88.9**
			0
Loans and borrowings current	9.3	45.7	-36.4
Derivatives used for hedging	1.4	0.4	0.9
Trade and other payables	232.2	210.1	22.1
Deferred income	223.6	199.9	23.7
Total current liabilites	**466.4**	**456.1**	**10.3**
Total equity and liabilities	**1,415.1**	**1,292.5**	**122.6**
Equity ratio	42%	44%	-2%
Current ratio	0.98	0.92	0.06
Net interest bearing debt	64.3	-7.7	72.0
Interest bearing debt	289.5	242.4	47.2

Icelandair Group's fleet currently comprises 46 aircraft – thereof 34 are unencumbered on the balance sheet



37 owned

423m USD book value

34 unencumbered

16m USD secured loans

Bombardier Q400 · Boeing 737 700/800 · Boeing 757 300
Bombardier Q200 · Boeing 767 300 · Boeing 757 200

A brief introduction to Icelandair Group

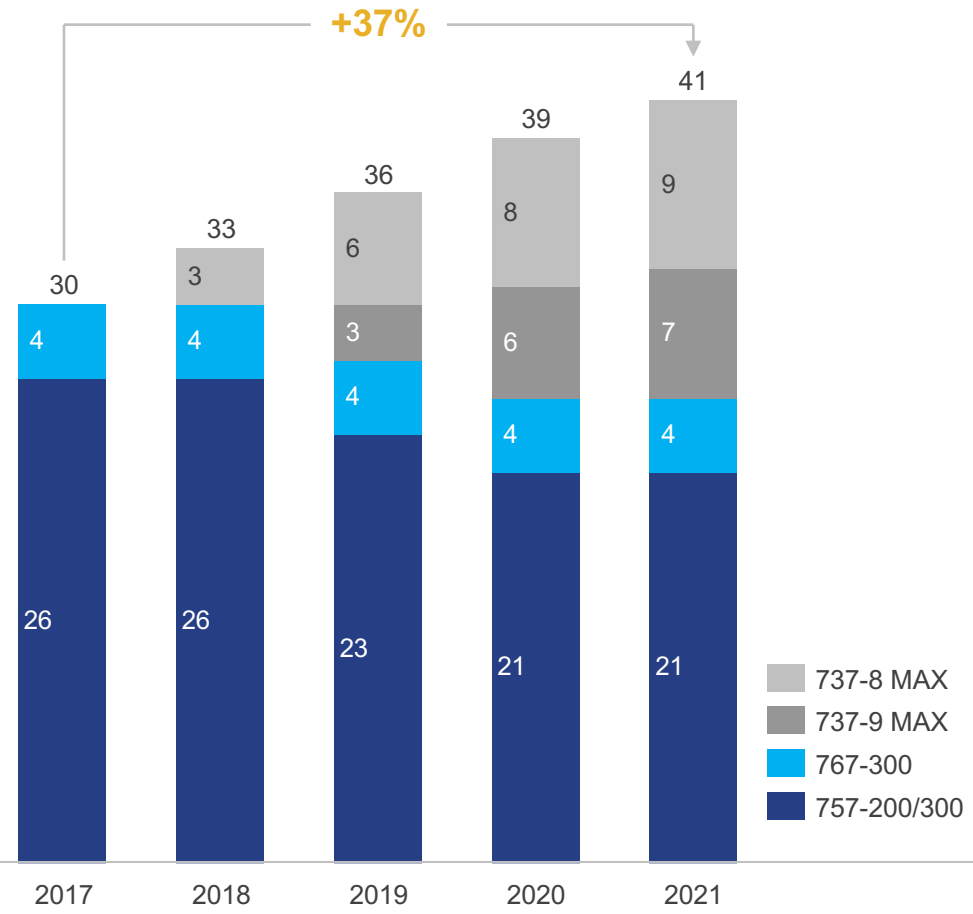
1. Our Business Model

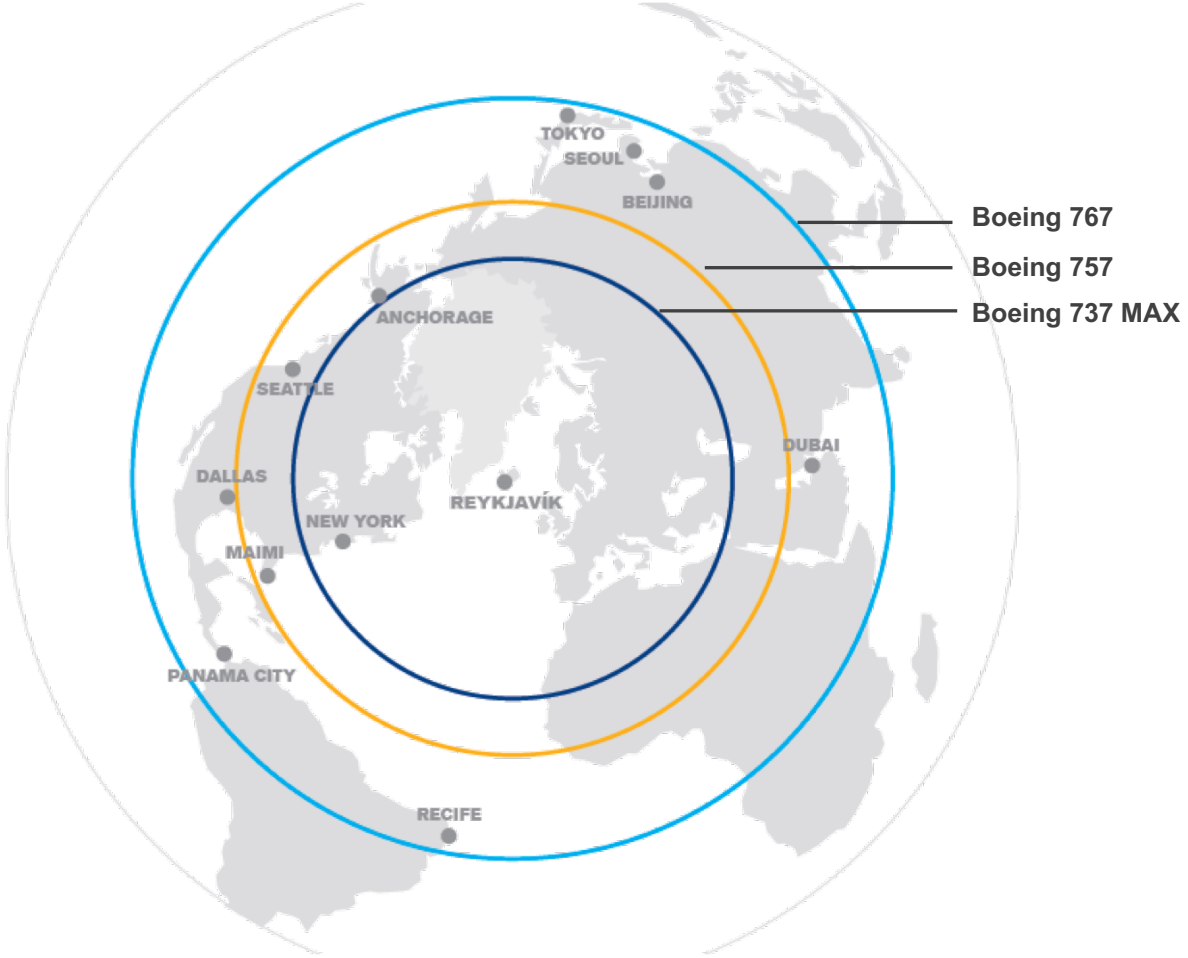
2. A History of Profitable Organic Growth

3. A Strong Financial Position

4. Future prospects

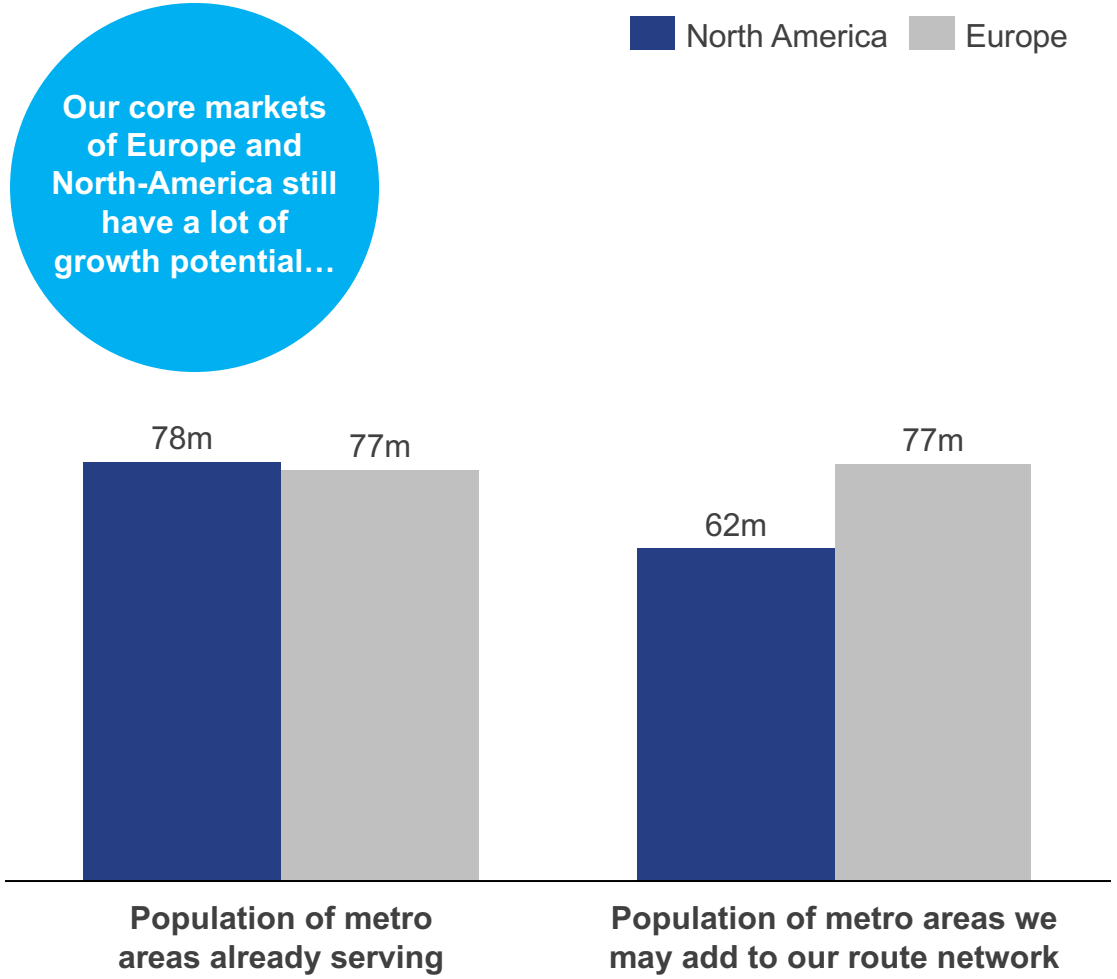
Icelandair's current fleet plan assumes continued growth, but it is flexible. The number of B757's in operation can e.g. be adjusted in line with market conditions

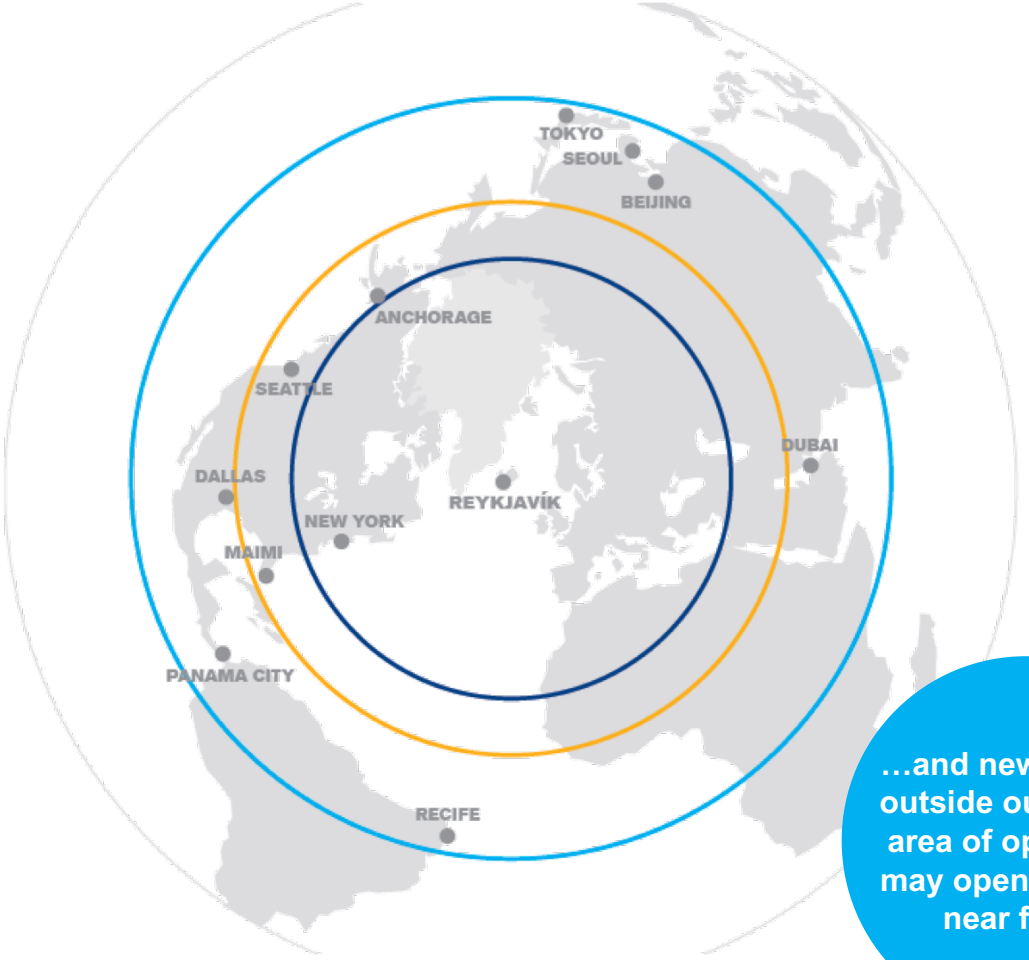




Icelandair still has a lot of room to grow in its core markets and new markets may open up in the near future

Our core markets of Europe and North-America still have a lot of growth potential…





…and new markets outside our current area of operations may open up in the near future

ICELANDAIR GROUP

Today's agenda

A brief introduction to Icelandair Group

Our partnership with Reykjavik University

Q&A

ICELANDAIR GROUP

Icelandair Group and Reykjavik University partnership

Description of partnership
• In recent years, **a number of graduate students** at Reykjavik University have **written their final thesis in co-operation with Icelandair Group**
• This means that **the students choose a subject related to Icelandair Group's area of expertise** and are during its writing supported practically and financially by the company
• Graduate students that are interested in writing their thesis in co-operation with Icelandair Group need to **apply to be a part of the program** and a group composed of university and company representatives will choose which projects to back

RU graduate students are free to propose the thesis topics they wish – we have also collected a few proposals that students can build on if they want (1/2)

Icelandair Group thesis topic proposals 2017/2018

Subject	Proposal	Description
Business	1 Effect of complaints on customer relationships	• If a customer receives bad service from e.g. Icelandair, how does it impact the customer relationship going forward? How does it affect the customer‘s NPS (Net Promoter Score)?
	2 Assessing the value of social media posts and ads	• The project would be aimed at developing a model to assess the value of social media posts advertising based on medium (e.g., Twitter), type (e.g., like) and cost
Computer Science	3 Personalized best fares	• We want to recommend flights to our customers in a smart way. We want to base our recommendation on previous searches, pages they have visited, prices and what similar customers purchased. We also want to be able to present the flight prices in a smart way and allow our customers to see if the price is trending upwards or downwards
	4 Personalized ancillaries	• We want to optimize how we offer our customers ancillary products so that they receive offers at the right place in their travel journey. We want to base our recommendations on variables such as where and at which time customers are travelling, how far in the future their travel is, what pages they have visited, what similar people purchased and so on.
	5 Website visitor segmentation	• We would like to segment the visitors to Icelandair websites based on behavior. From where do visitors arrive? What parts of the website to they spend time on? Which book a flight and which don't? What is their past behavior if they are returning customers?
Law	6 Predatory pricing in the aviation market	• A review of predatory pricing in the aviation markets, especially in the context of Hæstiréttur’s ruling no. 205/2011 and in comparison to case law in the EU
	7 Competition authorities and airport slots	• What is the authority of competition authorities to influence slot allocation at airports?

ICELANDAIR GROUP

RU graduate students are free to propose the thesis topics they wish – we have also collected a few proposals that students can build on if they want (2/2)

Icelandair Group thesis topic proposals 2017/2018

Subject	Proposal	Description
Law	8 Buying and leasing aircraft	• A comparison of the different arrangements used when buying and leasing aircraft
	9 Governing law and jurisdiction	• A review of governing law and jurisdiction in international transport agreements
	10 Personal data collection laws	• Icelandair is moving towards a more personalized service, where the customer experience is shaped by who the customer is and past behavior. We would be interested in an analysis of how the EU's data protection rules (Regulation 2016/679 and Directive 2016/680) will affect the use of customer data when developing digital solutions
Engineering and sciences	11 Damage to aircraft pressurized structure	• Damage to aircraft pressurized structure results in costly repairs. This research would use commonly available materials such as aluminum sheets and aircraft sealants to develop a temporary repair to unstiffened sections of the fuselage
	12 Stress on aircraft antenna installations	• Finite element modelling and crack growth analysis of a typical antenna installation on a Boeing 757 fuselage. Research of stress build up in antenna build up area and comparison with traditional mechanical approach and damage tolerance analysis
	13 Using ultrasound imaging to detect leaks in aircraft	• This research would study the feasibility of using ultrasound imaging to detect leaks in aircraft ducts, aircraft hydraulics, around aircraft doors and openings, deterioration of aircraft power plant. Develop inspection methods using handheld devices like https://www.distran.ch/

ICELANDAIR GROUP

Today's agenda

A brief introduction to Icelandair Group

Our partnership with Reykjavik University

Q&A

Questions and answers

Disclaimer

- This material has been prepared by Icelandair Group hf. It may include confidential information about Icelandair Group hf. unless stated otherwise all information is sourced by Icelandair Group hf.
- The circulation of the information contained within this document may be restricted in some jurisdictions. It is the responsibility of the individual to comply with any such jurisdictional restrictions.
- Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Icelandair Group. Past performance should not be viewed as a guide to future performance. Where amounts involve a foreign currency, they may be subject to fluctuations in value due to movements in exchange rates.
- Icelandair Group cannot guarantee that the information contained herein is without fault or entirely accurate. The information in this material is based on sources that Icelandair Group believes to be reliable. Neither Icelandair Group nor any of its directors or employees can however warrant that all information is correct. Furthermore, information and opinions may change without notice. Icelandair Group is under no obligation to make amendments or changes to this presentation if errors are found or opinions or information change. Icelandair Group accepts no responsibility for the accuracy of its sources or information provided herein and therefore can neither Icelandair Group nor any of its directors or employees be held responsible in any way for the contents of this document.
- This document must not be construed as investment advice or an offer to invest.
- Icelandair Group is the owner of all works of authorship including, but not limited to, all design, test, sound recordings, images and trademarks in this material unless otherwise explicitly stated. The use of Icelandair Group´s material, works or trademarks is forbidden without written consent except where otherwise expressly stated.
- Furthermore, it is prohibited to publish, copy, reproduce or distribute further the material made or gathered by Icelandair Group without the company‘s explicit written consent.

Icelandair Group

Reykjavík Airport
101 Reykjavík Iceland
Tel: +354 50 50 300
info@icelandairgroup.is

Copyright © Icelandair Group
All rights reserved.